



STATE OF UTAH INSURANCE DEPARTMENT

REPORT OF FINANCIAL EXAMINATION

of

ACCENDO INSURANCE COMPANY

of

West Valley City, Utah

as of

December 31, 2018



TABLE OF CONTENTS

SALUTATION	1
SCOPE OF EXAMINATION	1
Period Covered by Examination	1
Examination Procedures Employed	1
SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS	2
COMPANY HISTORY	2
General	2
Dividends and Capital Contributions	2
Mergers and Acquisitions	3
MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE	3
Board of Directors.....	3
Committees	3
Officers	3
Holding Company.....	4
Transactions and Agreements with Affiliates.....	4
TERRITORY AND PLAN OF OPERATION	5
GROWTH OF COMPANY	6
REINSURANCE	6
FINANCIAL STATEMENTS	6
BALANCE SHEET	7
STATEMENT OF REVENUES AND EXPENSES	8
RECONCILIATION OF CAPITAL AND SURPLUS.....	9
ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS	10
COMMENTS ON FINANCIAL STATEMENTS	10
SUBSEQUENT EVENTS	10
ACKNOWLEDGEMENT	10

May 22, 2020

Honorable Todd E. Kiser, Commissioner
Utah Insurance Department
3110 State Office Building
Salt Lake City, Utah 84114

Commissioner:

Pursuant to your instructions and in compliance with Utah Code § 31A-2-204, an examination, as of December 31, 2018, has been made of the financial condition and business affairs of:

ACCENDO INSURANCE COMPANY
West Valley City, Utah

hereinafter referred to in this report as “the Company”, and the following report of examination is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered by Examination

The last full scope examination of the Company was as of December 31, 2015. This full-scope examination of the Company was conducted by representatives of the Utah Insurance Department (“Department”) and covers the period of January 1, 2016, through December 31, 2018, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of the examination. This is a coordinated examination with representatives of the Tennessee Department of Commerce and Insurance, regulators of the Company’s affiliate, SilverScript Insurance Company (“SilverScript”).

Examination Procedures Employed

We conducted our examination in accordance with the *National Association of Insurance Commissioners Financial Condition Examiners Handbook* (“Handbook”). The Handbook requires that we plan and perform the examination to evaluate the financial condition, assess corporate governance, identify current and prospective risks of the Company and evaluate system controls and procedures used to mitigate those risks. An examination also includes identifying and evaluating significant risks that could cause the Company’s surplus to be materially misstated both currently and prospectively.

All accounts and activities of the Company were considered in accordance with the risk-focused examination process. This may include assessing significant estimates made by

management and evaluating management's compliance with Statutory Accounting Principles. The examination, however, does not attest to the fair presentation of the financial statements included herein. If during the course of the examination an adjustment is identified, the impact of such adjustment will be documented separately following the Financial Statements section of this report.

This examination report includes significant findings of fact, as mentioned in Utah Code § 31A-2-204 and general information about the Company and its financial condition. There may be other items identified during the examination that, due to their nature (e.g., subjective conclusions, proprietary information, etc.), are not included within the examination report but separately communicated to other insurance regulators and/or the Company.

SUMMARY OF SIGNIFICANT FINDINGS AND RECOMMENDATIONS

There are no significant findings for inclusion in this report.

COMPANY HISTORY

General

The Company was initially incorporated in Maryland on December 8, 1955 as Monumental General Insurance Company. On October 13, 1992, the Company was acquired by Toyota Motor Credit Corporation; as a result, the Company changed its name to Toyota Motor Life Insurance Company, and redomiciled to Iowa. On September 29, 1999, the Company was acquired by Hartford Life and Accident Insurance Company, and on January 24, 2002, the Company changed its name to Nutmeg Life Insurance Company.

During 2007, the Company was acquired by Accendo Holding Company, through its acquisition of Nutmeg Life Insurance Company. The Company then redomiciled to Utah effective October 3, 2007, and changed its name to Accendo Insurance Company. The ultimate parent company of the holding company was Longs Drugs Stores Corporation, a Maryland Publicly traded company.

During October 2008, Longs Drugs Stores Corporation was acquired by CVS Caremark Corporation. As a result of the acquisition, the Company became a writer of Medicare Part D. The ultimate parent of the holding company is CVS Health Corporation ("CVS Health").

Dividends and Capital Contributions

During 2018, the Company received \$10,000,000 of capital contributions from its parent. There were no other capital contributions during the exam period. There were no dividends paid or received during the examination period.

Subsequent to the examination date, on May 15, 2020, the Company paid \$10,000,000 ordinary dividend to its parent company (See SUBSEQUENT EVENTS).

Mergers and Acquisitions

During 2018, CVS Health acquired Aetna Inc., making CVS Health one of the largest health insurance companies in America.

MANAGEMENT & CONTROL INCLUDING CORPORATE GOVERNANCE

Board of Directors

Article V, Section 1, of the Company's bylaws states that the number of directors shall be five (5). The following persons served as directors for the Company as of December 31, 2018:

<u>Name and Location</u>	<u>Principal Occupation</u>
Harold Neil Lund Longwood, FL	President, Finance CVS Health Corporation
Todd Dean Meek Phoenix, AZ	Vice President, Medicare Part D CVS Health Corporation
Mary Kristina Meyer Twinsburg, OH	Vice President, Marketing CVS Health Corporation
David Scott Azzolina Richfield, OH	Vice President, Finance CVS Health Corporation
Marsha Carolyn Moore Scottsdale, AZ	Sr. Medical Director CVS Health Corporation

Committees

CVS Health Audit Committee covers all insurance entities in the holding company system.

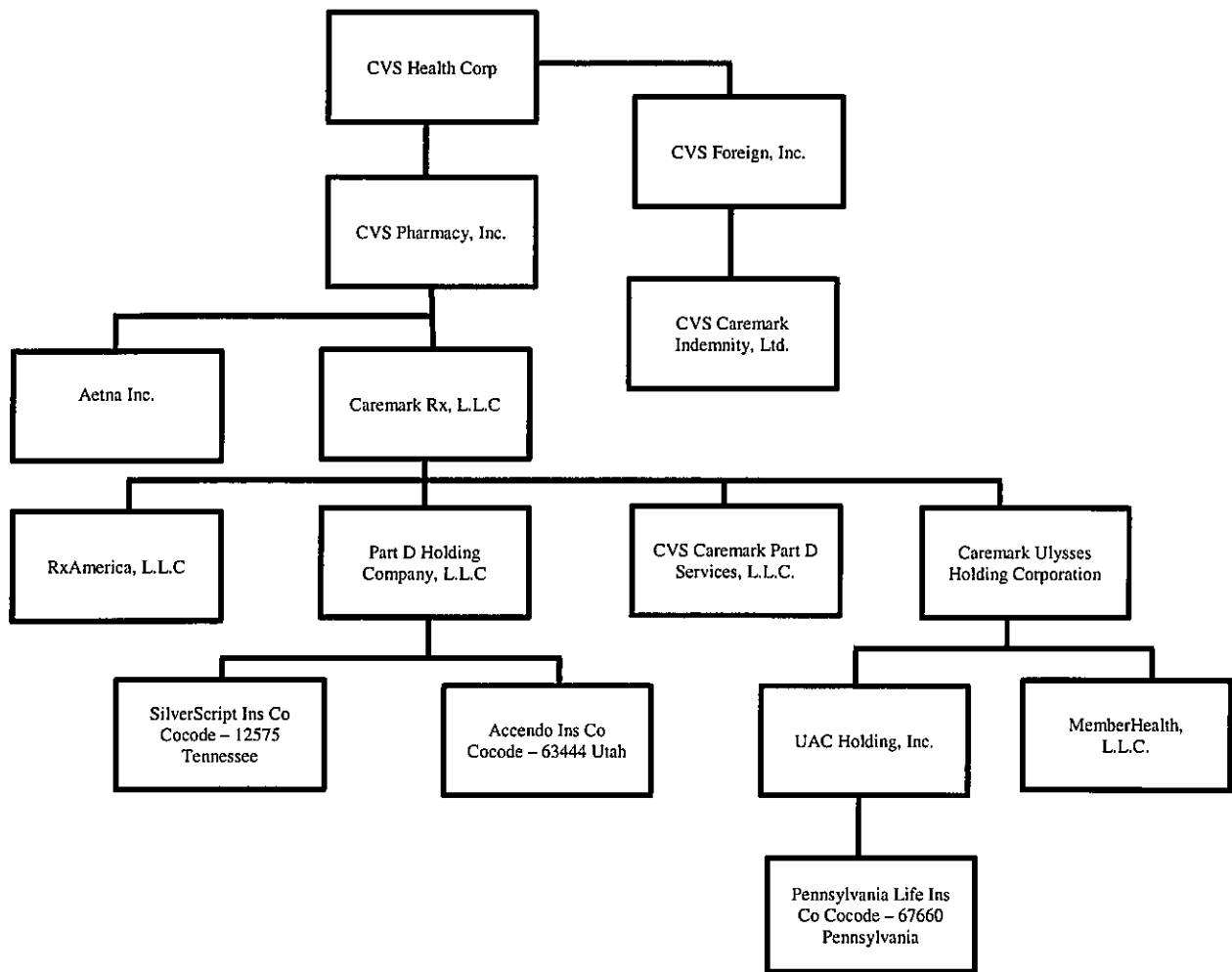
Officers

The following persons served as officers of the Company as of December 31, 2018:

Name	Title
Todd Dean Meek	President
Michele Wugalter Buchanan	Secretary
Daniel Lee Zablocki	Treasurer
Rebecca Conway Justice	Actuary

Holding Company

The Company is part of a holding company system as defined in Utah Code § 31A-16. The Company is wholly owned by Part D Holding Company, LLC. The ultimate parent in the holding company system is CVS Health. An organizational chart illustrating the holding company system as of December 31, 2018, follows:



Transactions and Agreements with Affiliates

Tax Sharing Agreement

The Company has a written tax-sharing agreement with the ultimate parent. The allocation of the ultimate parent's federal income taxes is based on the Company's federal tax liability determined as if the Company were filing its own separate tax return. The agreement further provides that the ultimate parent will pay the Company for its net

operating losses to the extent that such net operating loss is utilized in the reduction of the consolidated federal income tax liability. As of December 31, 2018, the Company owed the ultimate parent \$2,093,563 for federal income taxes.

Administrative Services Agreement

Subsequent to the examination date, the Company entered into an Administrative Services Agreement with Aetna Health Management, LLC (“AHM”), effective July 9, 2019, whereby AHM will provide administrative services, or arrange services from third parties, for the Company, in exchange for a fee and out of pocket expense reimbursement.

Reinsurance Agreement

Effective January 1, 2018, the Company entered into a quota share reinsurance agreement with its affiliate, SilverScript, as discussed in the reinsurance section of this report.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to offer Medicare Part D plans to eligible participants in all 50 states, and the District of Columbia. The Company’s most recent contract with the Centers for Medicare and Medicaid Services (“CMS”) is through the year ended December 31, 2011. Effective January 1, 2012, the Company ceased writing new premiums, and the plan of operation became dormant.

Subsequent to the examination date, the Company introduced a Medicare Supplement product to the following states, effective April 24, 2020:

Arizona	Georgia	Mississippi	Pennsylvania
Arkansas	Illinois	Nebraska	South Carolina
Colorado	Indiana	New Jersey	Tennessee
Delaware	Iowa	North Carolina	Texas
Florida	Michigan	Oklahoma	Wisconsin

The following states are pending launch on June 4, 2020:

Ohio	New Mexico	Rhode Island
------	------------	--------------

GROWTH OF COMPANY

The following exhibit depicts certain aspects of the growth and financial history of the Company for the period subject to this examination, according to its annual statements as filed with the Department:

<u>Year</u>	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Capital and Surplus</u>	<u>Total Revenues</u>	<u>Net Income</u>
2018	59,663,808	32,357,227	27,306,581	171,914,317	7,535,715
2017	12,949,885	3,250,140	9,699,745	128,340	102,097
2016	13,685,092	4,097,859	9,587,263	(1,347)	(122,766)

REINSURANCE

The Company did not have any ceded reinsurance during the examination period.

Effective January 1, 2018, the Company entered into a quota share reinsurance agreement with its affiliate, SilverScript. Under the terms of the agreement, the Company assumed 5% of SilverScript's risks associated with individual and group premiums, claims, and administrative expenses. SilverScript was formed in 2005 exclusively to provide benefits as a prescription drug plan under CMS' Medicare Part D program.

FINANCIAL STATEMENTS

The following financial statements are based on the statutory financial statements filed by the Company with the Utah Insurance Department and present the financial condition of the Company for the period ending December 31, 2018. The accompanying COMMENTS ON FINANCIAL STATEMENTS reflect any examination adjustments to the amounts reported in the annual statement and should be considered an integral part of the financial statements.

**ACCENDO INSURANCE COMPANY
BALANCE SHEET**

as of December 31, 2018

ASSETS		
Bonds		\$ 3,312,490
Cash, cash equivalents and short term investments		19,699,909
Investment income due and accrued		59,009
Uncollected premiums in course of collection		1,572,811
Accrued retrospective premiums		2,354,321
Amount receivable under reinsurance contracts		6,442,665
Net deferred tax asset		71,122
Health care and other mounts receivable		26,151,481
Total Assets		\$ 59,663,808
LIABILITIES		
Claims unpaid		\$ 252,918
Accrued medical incentive pool and bonus amounts		2,500
Premiums received in advance		1,661,464
General expenses due or accrued		185,051
Current federal and foreign income taxes		2,093,563
Funds held under reinsurance treaties		28,161,731
Total Liabilities		32,357,227
CAPITAL AND SURPLUS		
Common capital stock		2,500,000
Gross paid in and contributed surplus		16,308,114
Unassigned surplus		8,498,467
Total Captial and Surplus		27,306,581
Total Liabilities, Capital and Surplus		\$ 59,663,808

ACCENDO INSURANCE COMPANY
STATEMENT OF REVENUES AND EXPENSES
for the Year Ended December 31, 2018

REVENUES		
Net premium income		\$ 166,688,273
Change in unearned premium reserves		3,513,875
Aggregate write-ins for other health care related revenues		1,712,169
Total Revenues:		171,914,317
EXPENSES		
Prescription drugs		(1,937,193)
Subtotal:		(1,937,193)
Net reinsurance recoveries		137,959,854
Total hospital and medical:		136,022,661
Claims adjustment expenses		5,190,590
General administrative expenses		21,371,568
Total underwriting deductions:		162,584,819
Net underwriting gains (losses)		9,329,498
Net investment gains (losses)		413,858
Net gain (loss) from agent's balances		2,805
Aggregate write-ins for other income or expense		(116,884)
Net income (loss) after capital gains tax		9,629,277
Federal and foreign income taxes incurred		2,093,562
Net Income		\$ 7,535,715

ACCENDO INSURANCE COMPANY
RECONCILIATION OF CAPITAL AND SURPLUS

2016 through 2018

	2016	2017	2018
Capital and Surplus, December 31, prior year	\$ 9,720,413	\$ 9,587,263	\$ 9,699,745
Net income / (loss)	(122,766)	102,097	7,535,715
Change in net deferred income tax	-	-	71,122
Change in non-admitted assets	(10,384)	10,384	-
Surplus paid in	-	-	10,000,000
Aggregate write-in for gains (losses) in surplus	-	1	(1)
Net change in Capital and Surplus for the year	(133,150)	112,482	17,606,836
Capital and Surplus, December 31, current year	<u>\$ 9,587,263</u>	<u>\$ 9,699,745</u>	<u>\$ 27,306,581</u>

ANALYSIS OF CHANGES IN FINANCIAL STATEMENTS

Total Capital and Surplus

\$27,306,581

Total Capital and Surplus, as established by this examination, is the same as what was reported by the Company in its 2018 Annual Statement. There were no adjustments made to any balance sheet items as a result of this examination.

COMMENTS ON FINANCIAL STATEMENTS

There are no comments on the financial statement items as of December 31, 2018 as a result of the examination.

SUBSEQUENT EVENTS

1. Effective July 9, 2019, the Company entered into an Administrative Services Agreement with Aetna Health Management, LLC. (See TRANSACTIONS AND AGREEMENTS WITH AFFILIATES).
2. The Company launched the Medicare Supplement product in 20 states as of April 24, 2020 (See TERRITORY AND PLAN OF OPERATION).
3. On May 15, 2020, the Company paid \$10,000,000 ordinary dividend to its parent company (See DIVIDENDS AND CAPITAL CONTRIBUTIONS).

ACKNOWLEDGEMENT

Ryne Davison, CFE, Mike Mayberry, FSA, MAAA, and Glenn Tobleman, FSA, FCAS, MAAA, of the actuarial firm Lewis & Ellis, Inc., reviewed the reserve portion of the examination. Carol Riley, AES, CISA, CGEIT, CRISC, and Stefan Obereichholz-Bangert, AES, CISA, CISM, of Noble Consulting Services, reviewed the information technology portion of the examination. Mike Porter, CFE, PIR, Financial Examiner, supervised the examination. They join the undersigned in acknowledging the assistance and cooperation extended during the course of the examination by officers and representatives of the Company.

Respectfully submitted,



Malis Rasmussen, MSA. CFE, SPIR
Chief Examiner
Utah Insurance Department